DRAFT MINUTES OF THE
MEETING OF THE PENSION OVERSIGHT COMMISSION
April 7, 2017

A meeting of the Pension Oversight Commission (POC) for the Howard County Retirement Plan and the Howard County Police and Fire Employees' Retirement Plan was held Friday, April 7, 2017 at 8:30 a.m. In the Reisterstown room of the Ascend One Building at 8930 Stanford Blvd. Columbia, MD 21045. Members also participated via conference call. Present in person and on the phone for all or part of the meeting were the following voting members of the Commission:

Ken Barnes
Peter Hong
Todd Snyder
Mitchell Stringer

Commission member Toshie Kabuto was absent. Also present for all or part of the call were Terry Reider and Scott Southern from the department of human resources and Tom Lowman from Bolton Partners. Mr. Snyder chaired the meeting and Mr. Southern served as secretary.

Mr. Snyder asked Tom Lowman to go over the valuation reports presented to the Howard County Retirement Plan Committees at their meeting on January 26, 2017. Mr. Lowman described the purpose of the valuation was to look at the plans assets and liabilities as of June 30, 2016 to determine the percentage of payroll needed for their contributions into the retirement plans for the fiscal year 2018 budget. The recommended county contributions are 11.7% to the Howard County Retirement Plan and 32.5% for the Howard County Police and Fire Employees Plan.

Mr. Snyder wanted to know how long it would take to get the plans to a 100% funded liability status. Mr. Lowman explained that the plan amortizes gains and losses over a long term and it would be around 15-23 years. In 2016 the Howard county retirement plan had a loss of approximately $631,000 that would be amortized.

The commission and Mr. Lowman discussed the funding measures used in the valuation. Liabilities include retirees, beneficiaries, active employees, disabled and vested terminated employees. These are measured using assumptions such as COLA's, mortality and the discount rate. Currently the Howard County Retirement plan is 94.4% funded when looking at the actuarial value of assets or 90.5% funded with the market value of assets, which Mr. Lowman felt was a good level for the plan.

Mr. Snyder wanted Mr. Lowman to go over the difference between market values versus the actuarial value of assets. Mr. Lowman explained that there is a 5 year smoothing of investment gains and losses. The Howard County Retirement Plan had an investment loss of 22 million in FY16. The current valuation recognizes 5.3 million with 15.7 million to be reflected in future valuations. This method helps the county budget contribution increases.

Mr. Snyder wanted to know if the asset smoothing was an accepted practice. Mr. Lowman cited the Conference of Consulting Actuaries white paper where it is not only and accepted practice but recommended and that most public plans do use asset smoothing. Mr. Lowman felt that asset smoothing should generally be done over a 5 year time frame. This is a level budgeting tool to help minimize the effects of market volatility. Bolton does show both the market value of assets and the actuarial value of assets in their report.

Mr. Lowman stated that the plan is not a very mature plan and further explained that the percentage of retiree liability was 44% where more mature plans will have a retiree liability of 2/3 or more of total plan liabilities.

Mr. Snyder wanted to know if the mortality tables have changed since people are living longer. Mr. Lowman explained that the county uses the RP 2000 table using the AA scale to account for changes in mortality. Mr. Lowman explained that they may change to RP 2014 with the next experience study.

Mr. Snyder questioned if this was the best practice, he wanted to know if a new table came out every year shouldn't the county use the most current table. Mr. Lowman explained that general practice is to make a change once every 5 years with the experience study and the next study will be in 2018.

The discussion then went to the 7.5% investment return assumption and the risk associated with the different investment classes. Mr. Lowman stated that the county should not let the 7.5% return drive the investment mix. The county should decide what investment risk they are comfortable with.

Mr. Snyder wanted to know if there was a sensitivity study to show what the unfunded liability would be if the county was to lower the assumed rate of return to 6.5% or what it would be at 8.5%. Ms. Reider pointed out that these values were shown on page 13 and 14 the audited financials.

Mr. Snyder wanted to know the trend with investment return assumption. Mr. Lowman referenced the National Association of State Retirement Administrators (NASRA) survey that shows that the county is right at the median at 7.5%. Mr. Lowman did state that the trend has been a gradual decrease.

Mr. Stringer wanted to know with the smoothing of assets and if the county doesn't reach the investment return are they setting themselves up for an even larger deficit. Mr. Lowman explained that the finance department understands that losses are not all realized in the current year which leads to annually increasing plan contributions. Mr. Lowman summarized that the county plans use a normal set of assumptions, and a generally accepted smoothing practice. The county is putting in what they need to pay the liabilities of the plan. Mr. Lowman left the call at 9:33am

The discussion turned to the retirement plan committee's response to the commission's request the commission had to be able to review information from investment managers with confidentiality provisions. Mr. Southern explained that it was brought up at the last committee meeting and that the plan's legal counsel was looking into the issue. Mr. Barnes was at the meeting as well and stated that the investment advisor recommended providing the manager's publicly available annual reports, but he felt that would not show enough detail.

Mr. Snyder questioned whether the committee understood the liquidity and other risks inherent with some of the alternative investments. He was not sure the committee was reviewing or able to fully understand the offering documents of these investments. Mr. Snyder felt that it was the duty of the commission to oversee all aspects of the pension plans including confidential materials. He stated that it appeared to be an oversight when drafting the confidentiality provisions in the investment contracts to have excluded the POC.

Mr. Barnes felt that since the county does not have a CIO they rely too heavily on Summit Strategies for their investment advice.

With no other issues to discuss, the meeting was adjourned at 9:50 a.m.

Respectfully Submitted,

____

Scott Southern,
Office of Human Resources